

**REPORT OF THE AUDIT OF THE
OWSLEY COUNTY
CLERK**

**For The Year Ended
December 31, 2004**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2004.

We engaged Percy and Gray, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Percy and Gray, PSC evaluated the Owsley County Clerk's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY CLERK

**For The Year Ended
December 31, 2004**

Peercy and Gray, PSC was engaged to complete the audit of the Owsley County Clerk for the year ended December 31, 2004. Based upon the audit work performed, we have disclaimed an opinion on the financial statement and supplemental information.

Financial Condition:

The County Clerk's financial statement reported excess fees of \$1,290. However, based upon available documentation, there was a shortage of funds of \$61,876 as of December 31, 2004.

Report Comments:

- 2004-1 The County Clerk Has A \$61,876 Shortage In His 2004 Fees With Questionable Activity
- 2004-2 Undeposited Receipts In Auditor's Comparison Of Receipts In 2005 Fee Account Were Similar To Unidentified Deposits Made In 2004 Fee Account
- 2004-3 The County Clerk May Have Commingled Public And Private Funds
- 2004-4 The County Clerk Had Disallowed Disbursements Of \$434.75 In Bank Service Charges
- 2004-5 The County Clerk Received \$549.59 Over The Maximum Salary Authorized
- 2004-6 The County Clerk Should Retain Copies Of All Reports Prepared In Accordance With KRS 43.075
- 2004-7 The County Clerk Should Record Payments From The Kentucky State Treasurer And Fiscal Court In Accordance With KRS 43.075
- 2004-8 The County Clerk Should Deposit Funds Into An Interest Bearing Account
- 2004-9 Receipts Are Not Issued In Triplicate
- 2004-10 Motor Vehicle Usage Tax Not Remitted Timely
- 2004-11 Failure To Comply With The Uniform System Of Accounts
- 2004-12 The County Clerk Is Not Recording Payroll Paid By the Fiscal Court Correctly
- 2004-13 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2004-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

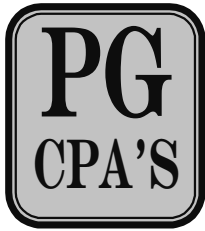
Deposits:

The County Clerk's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	5
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS	7
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	21



PEERCY AND GRAY, PSC

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The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Owsley County, Kentucky, for the year ended December 31, 2004. This financial statement is the responsibility of the County Clerk.

The Owsley County Clerk did not maintain adequate accounting records to allow us to verify the revenues and expenditures and determine the validity of the transactions for the year ended December 31, 2004. We were unable to apply procedures to determine whether the financial statement is presented fairly in conformity with the regulatory basis of accounting and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The Owsley County Clerk's records did not permit the application of other auditing procedures to revenues and expenditures for the year ended December 31, 2004.

Since the Owsley County Clerk did not maintain adequate accounting records and we were unable to apply other auditing procedures to satisfy ourselves as to the revenues and expenditures, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on this financial statement.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The Schedule Of Excess Of Liabilities Over Assets is presented for purposes of additional analysis and is not a required part of the financial statement. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement of the County Clerk. Similarly, we are unable to express and do not express an opinion on the Schedule Of Excess of Liabilities over Assets.

Based upon the results of our work, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2004-1 The County Clerk Has A \$61,876 Shortage In His 2004 Fees With Questionable Activity
- 2004-2 Undeposited Receipts In Auditor's Comparison Of Receipts In 2005 Fee Account Were Similar To Unidentified Deposits Made In 2004 Fee Account
- 2004-3 The County Clerk May Have Commingled Public And Private Funds
- 2004-4 The County Clerk Had Disallowed Disbursements Of \$434.75 In Bank Service Charges
- 2004-5 The County Clerk Received \$549.59 Over The Maximum Salary Authorized
- 2004-6 The County Clerk Should Retain Copies Of All Reports Prepared In Accordance With KRS 43.075
- 2004-7 The County Clerk Should Record Payments From The Kentucky State Treasurer And Fiscal Court In Accordance With KRS 43.075
- 2004-8 The County Clerk Should Deposit Funds Into An Interest Bearing Account

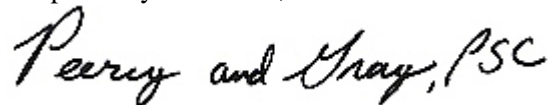
The Honorable Cale Turner, Owsley County Judge/Executive
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Members of the Owsley County Fiscal Court

- 2004-9 Receipts Are Not Issued In Triplicate
- 2004-10 Motor Vehicle Usage Tax Not Remitted Timely
- 2004-11 Failure To Comply With The Uniform System Of Accounts
- 2004-12 The County Clerk Is Not Recording Payroll Paid By the Fiscal Court Correctly
- 2004-13 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2004-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

In accordance with Government Auditing Standards, we have also issued our report dated March 8, 2006 on our consideration of the county clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Owsley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
March 8, 2006

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2004

Revenues

State Fees For Services	\$	2,650
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Fiscal Court		21,563
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	99,780
------------------------	----	--------

Usage Tax		90,579
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Tangible Personal Property Tax		214,546
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Other-

Fish and Game		15,575
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Marriage		1,622
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Deed Transfer Tax		3,008
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Delinquent Tax	4,537	429,647
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	5,610	
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Real Estate Mortgages	1,824	
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Chattel Mortgages and Financing Statements	13,764	
--	--------	--

Powers of Attorney	156	
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All Other Recordings	4,574	
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Charges for Other Services-

Miscellaneous	5,334	31,262
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Total Revenues		485,122
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Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	75,563	
------------------------	--------	--

Usage Tax	87,643	
-----------	--------	--

Tangible Personal Property Tax	82,771	
--------------------------------	--------	--

Licenses, Taxes, and Fees-

Fish and Game	16,252	
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Delinquent Tax	479	
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Legal Process Tax	4,774	267,482
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The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
 SID GABBARD, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND DEFICIT - REGULATORY BASIS
 For The Year Ended December 31, 2004
 (Continued)

Expenditures (Continued)

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	21,716	
Delinquent Tax		841	
Deed Transfer Tax		<u>2,917</u>	\$ 25,474

Payments to Other Districts:

Tangible Personal Property Tax	101,477	
Delinquent Tax	<u>2,418</u>	103,895

Payments to Sheriff 105

Payments to County Attorney 694

Operating Expenditures

Personnel Services-		
Deputies' Salaries	24,789	
Employee Benefits-		
Employer's Share Social Security	1,013	
Employer's Share Retirement	695	
Other Payroll Expenditures	2,795	
Materials and Supplies-		
Office Supplies	658	
Other Charges-		
Election Expenses	3,330	
Utilities	1,984	
Postage	3,245	
Miscellaneous	<u>4,010</u>	<u>42,519</u>

Total Expenditures 440,169

Net Revenues 44,953

Less: Statutory Maximum 43,663

Total Excess Fees \$ 1,290

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2004

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31, that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2004 services
- Reimbursements for 2004 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2004

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

OWSLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2004
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent for the first six months and 8.48 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2004, the County Clerk's deposits were fully insured at 100% level with the FDIC as of December 31, 2004.

Note 4. Grants

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$7,309. Funds totaling \$0 were expended during the year. The unexpended grant balance was \$7,309 as of December 31, 2004.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2004

Assets

Cash in Bank	\$ 9,992
Receivables:	<u>20,790</u>
Total Assets	<u>30,782</u>

Liabilities

Paid Obligations-		
Outstanding Checks	\$ 70,290	
Outstanding Liabilities	<u>12,693</u>	
Total Paid Obligations		<u>82,983</u>
Unpaid Obligations:		
City of Booneville	73	
Board of Education	5,719	
Extension	445	
Board of Health	396	
Library	534	
Owsley County Treasurer	1,524	
Disallowed overdraft charges	435	
Disallowed excess salary	<u>549</u>	
Total Unpaid Obligations		<u>9,675</u>
Total Liabilities		<u>92,658</u>
Total Fund Deficit as of December 31, 2004		<u><u>\$ (61,876)</u></u>

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COMMENTS AND RECOMMENDATIONS

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

STATE LAWS AND REGULATIONS:

2004-1 The County Clerk Had A \$61,876 Shortage In His 2004 Fees With Questionable Activity

Based on the available records, we identified a \$61,876 shortage in the County Clerk's fee account. Of that amount, \$52,000 in cash deposits were made after December 31, 2004. In addition, a time lag of up to thirteen months was documented between when a check was written by the County Clerk, received by the taxing districts and subsequently cashed.

- On December 31, 2004, the County Clerk had \$9,992 in his 2004 fee bank account. He had outstanding checks and liabilities of \$92,658 and during January of 2005, he deposited \$20,790 of 2004 business receipts. This resulted in a \$61,876 shortage of fees for the 2004 calendar year.
- After December 31, 2004, the County Clerk made \$52,200 in unidentified cash deposits. The dates and amounts are as follows:

February 12, 2005	\$ 7,500
March 8, 2005	9,700
April 12, 2005	23,000
April 25, 2005	5,000
July 15, 2005	7,000

- The County Clerk does not make deposits daily as required. Receipts are batched daily and posted to the receipts ledger, but a deposit ticket is not completed for that day. Some weeks, only one or two deposits were made.
- We compared the \$65,835 of receipts recorded on the March 2004 receipts ledger to the amount deposited in the bank. Bank records indicate \$47,895 was deposited during the month leaving an unexplained difference of \$17,940.
- Our documentation reflects a significant time-lapse between the date checks were written and the dates they cleared the bank. Testing indicated a pattern between the payee on the check; usually a taxing district, and the date checks cleared the bank. For example, outstanding checks noted for one taxing district were dated from February 10, 2004 through December 9, 2004, totaling twelve checks. All twelve checks cleared March 14, 2005. This pattern was repeated for almost all taxing districts.
- As of December 16, 2005, checks made payable to taxing districts and totaling \$8,691 remain outstanding for calendar year 2004. These checks have not been received by the taxing district, voided or replaced. The following is a breakdown of taxing districts due money from the County Clerk:

Board of Education	\$5,719
Extension	445
Health	396
Library	534
Fiscal Court	1,524
City of Booneville	73

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

- The County Clerk is not preparing monthly bank reconciliations. The County Clerk should prepare a monthly reconciliation, listing outstanding checks and deposits in transit. The ending balance should equal the balance in the checkbook. He should also verify monthly deposits and checks that have cleared the bank, and investigate any discrepancies.

The County Clerk should ensure that all funds collected are deposited in a timely manner and disbursed to the appropriate taxing districts by the tenth of the month, as required by KRS 134.815, following collections.

We recommend the County Clerk properly identify, deposit, record and agree all receipts to a daily checkout sheet and the receipts ledger in a timely fashion. All disbursements should be made timely and properly recorded in the disbursement ledger. The fee account should be timely reconciled and any significant time-lapse in receipts/disbursements should immediately be investigated and resolved.

We further recommend the County Attorney take necessary action to secure payment of these obligations to the appropriate taxing districts and notify the Governor's Office for Local Development when these payments have been made. This matter is being referred to the Office of Attorney General to determine whether further investigation is warranted.

County Clerk's Response: Checks to all districts were rewritten. Daily deposits are being made. All shortages have been corrected.

2004-2 Undeposited Receipts In Auditor's Comparison Of Receipts In 2005 Fee Account Were Similar To Unidentified Deposits Made In 2004 Fee Account

A comparison was made using the cash receipts ledgers from January 1 through June 30, 2005 to the unidentified cash deposits into the 2004 fee bank account. We noted undeposited receipt amounts for 2005 were similar to the unidentified deposits made in the 2004 fee bank account. Also, we noted a \$46,088 difference between the amounts recorded on the ledgers to the amount deposited in the 2005 fee account.

We recommend the County Clerk properly identify, deposit, record and agree all receipts to a daily checkout sheet and the receipts ledger in a timely fashion. All disbursements should be made timely and properly recorded in the disbursement ledger. The fee account should be timely reconciled and any significant time-lapse in receipts/disbursements should immediately be investigated and resolved.

County Clerk's Response: Disbursements are being made timely. Deposits are made daily. Checkout Sheets are being prepared and recorded in the Disbursements Ledger.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

2004-3 The County Clerk May Have Commingled Public and Private Funds

Audit staff was told by the County Clerk that he keeps large sums of cash on hand in order to cash checks for nonofficial business. Also, testing discovered the County Clerk's paychecks were stamped with the office endorsement. KRS 64.850 states an official should not "withdraw public funds for any purpose other than that for which they were received and deposited." The cashing of checks for himself and other individuals may constitute commingling of public and private funds by the County Clerk.

We recommend the County Clerk keep his fees and taxes separate from private funds. This matter is being referred to the Office of Attorney General to determine whether further investigation is warranted.

County Clerk's Response: We do not cash any more checks. No money kept on hand.

2004-4 The County Clerk Had Disallowed Disbursements of \$434.75 In Bank Service Charges

The County Clerk's 2004 Fee Account was charged \$434.75 in bank service charges due to overdraft notices. These charges are disallowed expenses.

We recommend the County Clerk reimburse the 2004 Fee Account this amount from his personal funds.

County Clerk's Response: \$434.75 has been deposited. Wrote check to Fiscal Court \$434.75 for Excess Fees.

2004-5 The County Clerk Received \$549.59 Over The Maximum Salary Authorized

The County Clerk received \$56,223.54 in compensation for 2004, but the Maximum Salary Authorized was \$55,673.95. The County Clerk exceeded the maximum allowed by \$549.59.

We recommend the County Clerk reimburse the 2004 Fee Account this amount from his personal funds.

County Clerk's Response: \$549.59 has been deposited. Wrote check to Fiscal Court \$549.59 for Excess Fees.

2004-6 The County Clerk Should Retain Copies Of All Reports Prepared In Accordance With KRS 43.075

The County Clerk should retain copies of all reports prepared in accordance with KRS 43.075. During our testing, we were unable to obtain copies of any of the Quarterly Deed Transfer Tax Reports and we did not receive copies of three of the Monthly Delinquent Tax Reports.

- Income from Deed Transfers was received in all four quarters, but was paid only in the fourth quarter. Because the County Clerk did not retain copies of the Quarterly Deed Transfer Reports, no testing could be completed.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

2004-6 The County Clerk Should Retain Copies Of All Reports Prepared In Accordance With KRS 43.075 (Continued)

- We were supplied with Monthly Delinquent Tax reports for the months of February, May, and November. The gross amounts collected on these reports equaled the amounts recorded in the receipts ledger individually and in the aggregate. However, when we analyzed the disbursements ledger for delinquent tax disbursements for these same months, we found disbursements in February, April, and October, presumably for the months of January, March, and September, respectively. There were no monthly reports prepared for the months of January, March and September.

KRS 43.075 requires the County Clerk to maintain adequate records.

We recommend the County Clerk retain copies of all required reports of collections in accordance with KRS 43.075 and that the tax be remitted timely as required.

County Clerk's Response: All reports are being retained.

2004-7 The County Clerk Should Record Payments From The Kentucky State Treasurer And Fiscal Court In Accordance With KRS 43.075

The County Clerk should record all payments received from the Commonwealth of Kentucky and the Owsley County Fiscal Court in accordance with KRS 43.075. During our testing, we found that these payments were not recorded on the daily checkout sheets or in the receipts ledger. The only recording of these payments was made on the Quarterly Report, and those amounts did not agree exactly to the Schedule of State Payments and County Payments. Some, but not all, of the payments could be traced to deposit slips.

We recommend the County Clerk record payments from the Commonwealth and Fiscal Court on the Daily Check Out Sheets and Receipts Ledger in accordance with KRS 43.075.

County Clerk's Response: All receipts are being recorded.

2004-8 The County Clerk Should Deposit Funds Into An Interest Bearing Account

The County Clerk should deposit funds into an interest bearing account. The County Clerk has stated that the local bank requires the account to maintain a minimum balance that he cannot maintain. This could be accomplished by opening a savings account for depositing all receipts and transferring amounts periodically to cover checks written.

We recommend the County Clerk explore options with the local bank to assure that the funds are in an interest bearing account.

County Clerk's Response: Corrected.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

2004-9 Receipts Are Not Issued In Triplicate

The County Clerk does not issue receipts in triplicate, as required by KRS 64.840. One copy should be given to the customer, one copy should be retained in numerical order, and one copy should be kept with the daily bank deposit and checkout sheet. No copy is kept with the daily bank deposit and checkout sheet.

We recommend receipts be issued in triplicate, with one receipt kept with the daily deposit ticket and checkout sheet so receipts can be easily traced.

County Clerk's Response: New receipts have been ordered.

2004-10 Motor Vehicle Usage Tax Not Remitted Timely

The County Clerk is required by KRS 138.464 to report to the Department of Revenue all motor vehicle usage tax on each Monday collected for the previous week, and to remit such tax to the state bank account daily. The reports were submitted timely, but the payments were sometimes late.

We recommend the County Clerk deposit the Motor Vehicle Usage Tax on a daily basis as required by KRS 138.464.

County Clerk's Response: Motor Vehicle Tax is being deposited daily.

2004-11 Failure To Comply With The Uniform System Of Accounts

Findings 2004-1 through 2004-10 above represent a significant failure to comply with the Uniform System of Accounts as adopted under KRS 68.210 and KRS 43.075(3). Among other provisions, this statute requires the official to maintain accurate recording of receipts by source and expenditures by payee, and to fulfill all other legal requirements relating to the management of public funds by his office, including all publications requirements. The requirements for uniform formats for audit reports shall require that the format of reports for each category of county or district office shall be uniform.

We recommend the County Clerk meet minimum standards of accountability in compliance with the Uniform system of Accounts.

County Clerk's Response: Has been corrected.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES

2004-12 The County Clerk Is Not Recording Payroll Paid By the Fiscal Court Correctly

Fiscal Court writes all paychecks and handles all payroll related recordkeeping for the County Clerk's office. Fiscal Court pays approximately one-half of the County Clerk's salary. The County Clerk should reimburse Fiscal Court the gross amount of his office's payroll. We noted that the County Clerk also writes himself the same monthly paycheck out of his fee account. According to bank deposit tickets, the County Clerk then deposited either one or both checks into his fee account. Also, the majority of his payroll checks are stamped with the County Clerk's office endorsement. The County Clerk stated this was done because he was cashing his paycheck out of the cash drawer. We could not determine whether the County Clerk was being paid twice or if this caused the shortage in his fee account. In addition, we could not determine the exact amount paid to the County Clerk.

We recommend the County Clerk stop writing his paycheck from his fee account, to avoid all appearances of performing his personal banking.

County Clerk's Response: All paychecks have been stopped. Fiscal Court writes all checks.

2004-13 The County Clerk's Office Lacks Adequate Segregation Of Duties

During our audit, we noted the County Clerk's internal control structure lacked an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. In our judgment, this condition could adversely affect the County Clerk's ability to record, process, summarize and report accurate financial information. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards.

We recommend the County Clerk implement the following compensating controls that would compensate for the lack of adequate segregation of duties:

- Daily deposits be recounted and deposited by the County Clerk
- Reconciliation of reports to source documents by the County Clerk
- All disbursement checks to be signed by two people, one must be the County Clerk
- The County Clerk examine all disbursement checks prepared by office employees for proper documentation
- The County Clerk mails or delivers tax payments to districts
- The County Clerk or someone independent of the County Clerk's Office prepares the bank reconciliation

County Clerk's Response: Will correct.

OWSLEY COUNTY
SID GABBARD, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2004
(Continued)

2004-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

County Clerk Sid Gabbard is the only approved check signer on the 2004 account. However, it appears that several others are signing his name on the checks and other forms, as they are very different than his signature witnessed by the auditors on the engagement letter.

We recommend that only approved check signers sign the County Clerk's checks.

County Clerk's Response: Have contacted banks, Deputy Clerks can now sign checks.

PRIOR YEAR:

The following findings were included in the prior year audit and were not corrected:

- Public Funds Should Be Deposited Into Interest Bearing Accounts
- Payroll Records Should Be Adequately Maintained
- Payments Should Be Made From The 2003 Year Account For All 2003 Year Expenditures
- The Clerk Should Make Timely Deposits To Avoid Bank Overdrafts
- The Clerk Had Disallowed Bank Charges Of \$485 As A Result of Bank Overdrafts
- The Clerk Should Not Commingle Public And Private Funds
- The Clerk Should Make Deposits In A Timely Manner
- The Clerk Should Make Payments In A Timely Manner
- The Clerk Retains Cash In An Unsecured Desk Drawer
- The Clerk Makes Deposits Of Cash Only, At Inconsistent Intervals
- The Clerk Did Not Post All Receipts And Disbursements
- The County Clerk Did Not Comply With The Uniform System Of Accounts
- The Clerk's Office Lacks Adequate Segregation Of Duties

The following finding was included in the prior year audit and was corrected for 2004:

- The Clerk Should Retain all Bank Statements and Cancelled Checks

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Cale Turner, Owsley County Judge/Executive
The Honorable Sid Gabbard, Owsley County Clerk
Members of the Owsley County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We were engaged to audit the statement of revenues, expenditures, and excess fees - regulatory basis of the Owsley County Clerk for the year ended December 31, 2004, and have issued our report thereon dated March 8, 2006, wherein we disclaimed an opinion on the financial statement because the County Clerk failed to maintain adequate accounting records.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owsley County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- 2004-12 The County Clerk Is Not Recording Payroll Paid By the Fiscal Court Correctly
- 2004-13 The County Clerk's Office Lacks Adequate Segregation Of Duties
- 2004-14 Others Are Signing The County Clerk's Signature On Checks And Other Forms

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be material weaknesses.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owsley County Clerk's financial statement for the year ended December 31, 2004, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- 2004-1 The County Clerk Has A \$61,876 Shortage In His 2004 Fees With Questionable Activity
- 2004-2 Undeposited Receipts In Auditor's Comparison Of Receipts In 2005 Fee Account Were Similar To Unidentified Deposits Made In 2004 Fee Account
- 2004-3 The County Clerk May Have Commingled Public And Private Funds
- 2004-4 The County Clerk Had Disallowed Disbursements Of \$434.75 In Bank Service Charges
- 2004-5 The County Clerk Received \$549.59 Over The Maximum Salary Authorized
- 2004-6 The County Clerk Should Retain Copies Of All Reports Prepared In Accordance With KRS 43.075
- 2004-7 The County Clerk Should Record Payments From The Kentucky State Treasurer And Fiscal Court In Accordance With KRS 43.075
- 2004-8 The County Clerk Should Deposit Funds Into An Interest Bearing Account
- 2004-9 Receipts Are Not Issued In Triplicate
- 2004-10 Motor Vehicle Usage Tax Not Remitted Timely
- 2004-11 Failure To Comply With The Uniform System Of Accounts

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Peercy and Gray, PSC
Certified Public Accountants

Audit fieldwork completed -
March 8, 2006

